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SUBJECT: PFDJ MONEY-MAN SPEAKS ON ERITREA'S WAR ECONOMY

REF: ASMARA 198

Classified By: Ambassador Ronald K. McMullen for Reason 1.4 (d)

¶1. (C) People's Front for Democracy and Justice (PFDJ) money-man Hagos "The Sack" Ghebrehiwot told the ambassador on April 2 that Eritrea's current economic polices are "directly tied to the situation" on the border rather than driven by Marxist ideology, and that Eritrea's economy must remain on a war footing until the standoff ends. He noted that the Government of the State of Eritrea (GSE) supported pro-market economic policies prior to the start of the border war in 1998, and that similar economic policies would follow rapprochement with Ethiopia. Historically Eritrea never had a strong private sector, Hagos commented, but rather a small-scale, undiversified economy based on "non-advanced trading." The GSE, through the PFDJ, created "from scratch" the large-scale enterprises necessary for a modern economy, he added.

¶2. (C) Hagos said the border war had led to a decrease in loans and investment, causing hard currency reserves to evaporate. The small amount of hard currency remaining must be prioritized, he noted, with national defense always getting the first slice of the pie. This has left the GSE with difficult choices in funding priorities such as food, fuel, and medicine. Hagos said the significant increase in the cost of diesel fuel internationally forced the GSE to cut consumption, and they can "no longer afford to import it." Despite these difficulties, he listed several long-term GSE economic investments in roads and microdams, and claimed that Eritrea can maintain its war economy for "as long as necessary."

¶3. (C) Hagos stated the oft-heard GSE refrain that foreign aid weakens a country by making its people dependent, and cited U.S. aid as a major cause of Ethiopia's internal instability. He described the GSE's policy of self-reliance as "misunderstood," noting that while Eritrea definitely needs assistance, the GSE knows best how aid should be distributed and used in order to facilitate later weaning of the country from such dependence.

¶4. (C) COMMENT: The resident World Bank director (please protect) said Hagos and others who run Eritrea's tiny command economy may feign fondness for the private sector, but in fact have grown attached to the power and riches that stem from their positions. This is a variation on the theme that Isaias uses the pretext of the ongoing threat from Ethiopia to maintain his dictatorial grip on the country. END COMMENT.

MCMULLEN